

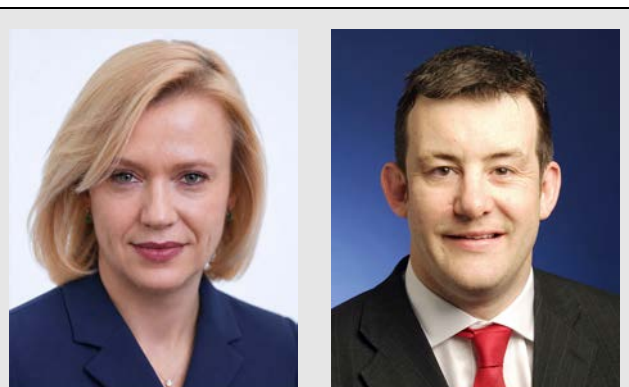
International Controlled Transactions Schedule and U.K. Transfer Pricing

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In this article, Lucey and Hann examine the international controlled transactions schedule, a major change to transfer pricing reporting in the United Kingdom.

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The United Kingdom is preparing to introduce the most significant change to transfer pricing reporting in its history.

For many multinational enterprise groups outside the United Kingdom, the international controlled transactions schedule (ICTS) may appear to simply be the United Kingdom playing catch-up with similar reporting requirements that already exist in other countries. Some groups will have only a limited number of U.K.-related transactions within scope and may assume that the reporting obligation will therefore be straightforward.

But the devil is in the details, and the ICTS design suggests a more nuanced picture. In this article, we explain what the ICTS is and why it will likely reshape the U.K. transfer pricing landscape. We explore how the regime changes the information available to HM Revenue & Customs and its ability to assess transfer pricing risk; highlight several features that may be particularly relevant for foreign-owned groups with U.K. operations; and consider the practical and strategic questions taxpayers should address ahead of implementation.

What Is the ICTS?

The ICTS will require U.K. taxpayers to provide detailed, standardized information on in-scope cross-border controlled transactions and permanent establishment dealings in a digital format. It will accompany, but be filed separately from, the corporation tax return and is expected to be filed on an entity-by-entity basis.

The focus is on companies (whether U.K. resident or not) that are within the scope of U.K. corporation tax and either:

- engage in cross-border transactions within the scope of the U.K. transfer pricing rules; or
- apply transfer pricing principles to PE dealings as part of a U.K. corporation tax computation.

There is no minimum size threshold for the reporting entity. However, transactions that qualify for the small and medium-size enterprise exemption for the U.K. transfer pricing rules are not reportable, and for nonexempt transactions, there are materiality thresholds for reporting, which vary depending on whether the group of which the reporting entity is a member meets the size threshold for country-by-country reporting.

Transactions covered by an advance pricing agreement with HMRC are not reportable (although in these circumstances, separate annual reports are generally required under the terms of the APA).

The final regulations are expected in the autumn, and the rules are expected to apply for accounting periods beginning on or after January 1, 2027, with filing due 12 months after the end of the accounting period. The first filings may not be due until the end of 2028, but it is important to recognize that the relevant data will begin to be generated on January 1, 2027.¹

That distinction matters. For example, the ICTS includes a specific question on whether any of the reporting entity's transfer pricing policies have changed since the previous period. This may make it preferable to implement changes in 2026 rather than 2027, given the additional disclosure requirements.

A Compliance Obligation With a Strategic Effect

On its face, the ICTS is an additional compliance filing. In practice, it represents something more important: a change in the informational starting point for U.K. transfer pricing risk assessment and audits.

HMRC will receive structured data on transfer pricing arrangements before, and separately from, the fuller narrative that would ordinarily be provided through a local file, discussions with management, or an inquiry process.

Moreover, the ICTS will provide structured information that HMRC will feed into the transfer pricing risk assessment framework it has been building in the last couple of years, through investment in specialist resources, data analytics, and articulation of the areas HMRC believes lead to transfer pricing risk. This information will be available to taxpayers via detailed guidelines for compliance.² The ICTS and wider reforms — such as taxpayers' obligation to correct or notify HMRC of inaccuracies in returns and HMRC's power to issue "customer correction notices," included in the proposed Finance Bill 2025-26 —

will likely bring a heightened expectation for MNEs to get their transfer pricing right (or correct it), as well as an increase in transfer pricing inquiries, with sharper focus.

What Information Will HMRC Receive?

The ICTS is designed to provide HMRC with a structured dataset covering an entity's material cross-border controlled transactions and certain transfer pricing risk indicators for the entity as a whole. The information extends beyond transaction values and seeks to capture finer details of the transfer pricing model as it concerns the United Kingdom and the implementation of transfer pricing policies in practice.

Nonfinancial Transactions

For nonfinancial transactions, taxpayers will be required to report information on transaction categories, counterparties, transfer pricing methods, and relevant pricing parameters.

The draft design also requires additional information in areas that traditionally attract transfer pricing scrutiny, including profit-split arrangements and transfers of intangible assets. If profit-split methods are used, taxpayers must disclose information regarding the measurement of the profits being split, the splitting factors applied, and the outcomes. Transactions involving transfers of intangible assets (or rights to intangibles) are subject to enhanced reporting requirements, including confirming whether the intangibles are "hard to value intangibles" and providing various data points relating to the valuation method and key valuation assumptions (e.g., useful economic life).

The data points requested map neatly to the areas of transfer pricing risk that HMRC identified in the transfer pricing "guidance for compliance"³ issued in 2024 and subsequently updated. The ICTS was deliberately designed to give HMRC a more direct route to assessing the risks it already focuses on.

¹For accounting periods ending on December 31.

²HMRC, "Help With Common Risks in Transfer Pricing Approaches — GfC7" (Sept. 10, 2024) (updated in Dec. 2025 and Apr. 2026).

³*Id.*

Financial Transactions

The ICTS also places particular emphasis on cross-border financial transactions, reflecting that HMRC views this as an important area of transfer pricing risk, which is suitable for automated risk profiling. It includes materiality thresholds based on the impact of income statements for borrowers (£1 million for MNE groups that meet the size threshold for CbC reporting and £100,000 otherwise) and based on balance sheet tests for lenders (broadly £50 million for MNE groups meeting the CbC reporting threshold and £5 million otherwise). That HMRC has adopted different tests for borrowers and lenders reflects how the risk to U.K. tax revenue differs in each case: For a U.K. borrower, HMRC is primarily concerned about excessive interest deductions relative to a company's profit and loss; for a lender, underpriced debt is the concern, hence the threshold is based only on the quantum of the loan to ensure these arrangements are reportable.

Taxpayers will be required to provide detailed information on the five largest borrowing and lending transactions that exceed these thresholds. There are core data points for lending and borrowing transactions and a supplemental set of data points for the top five borrowing transactions, which include details of any credit rating used in comparability analysis, key financial ratios for the borrower, the purpose for which the funds were used, and whether the borrower benefited from any financial guarantees.

This level of disclosure was previously reserved for inquiries, and some of the data points are not consistently included in U.K. local files if the U.K. party is a borrower. Under the ICTS, this information will be available as part of routine filing. This is a major change in the data available to HMRC for assessing financial transaction risks.

Overarching Transfer Pricing Information

Beyond reportable transactions, the schedule also requires information on events and features commonly associated with transfer pricing risk, including business restructurings, changes in transfer pricing policies, transfer pricing adjustments on tax returns, cost-base exclusions (e.g., for share-based payments), and certain intangible-related transactions.

Taken together, the ICTS disclosures provide HMRC not only with information about how a taxpayer prices material transactions but also with information about how policies have been implemented in practice, whether those policies have changed, whether adjustments have been required, and whether events have occurred that may warrant further scrutiny.

Non-U.K.-Headquartered Groups' Surprise

For many non-U.K. readers, particularly those in MNE groups headquartered in the United States, the U.K. entity may initially not appear especially significant from a transfer pricing reporting perspective. A relatively small number of intercompany transactions can create the impression that the ICTS will be straightforward. In practice, the level of detail required for some transactions means that complexity is not necessarily driven by the number or volume of transactions. Even groups with comparatively simple U.K. transfer pricing profiles may find themselves addressing reporting, reconciliation, and governance questions that have not previously arisen.

One example is intragroup financing. The ICTS reporting requirements for the five largest borrowing balances are extensive and hone in on the conditions and financial ratios when the loan instrument was entered into. In practice, some transfer pricing reports prepared for U.K. subsidiaries of inbound groups focus on interest rate benchmarking but have limited or no thin capitalization analysis supporting the accurate delineation of the financing as debt. This may reflect that other jurisdictions have alternative approaches to the balance of debt and equity funding. Consequently, there may be data gaps that influence HMRC's risk assessment.

Another example is transactions involving intangibles in which valuation methods are applied. The requirement to disclose information on valuation approaches and assumptions reflects HMRC's continuing focus on the pricing of intangible-related transactions and other areas in which significant judgment is involved. For groups undertaking business restructurings, transfers of intangible assets, or other valuation-driven transactions, the ICTS will therefore provide HMRC with earlier visibility of

information that historically would have been available only during an inquiry.

The regime may also present challenges for some MNE groups whose transfer pricing processes are built primarily around the applicable to the parent company generally accepted accounting principles (e.g., U.S. GAAP). Transfer pricing analyses may test outcomes using management reporting in the parent company's applicable GAAP rather than U.K. GAAP entity financial statements. The ICTS is designed to capture transaction-level outcomes as reflected in the U.K. entity's solus accounts under U.K. GAAP, which forms the starting point for the corporation tax return. As a result, some groups may need to revisit processes for tracing adjustments to local statutory accounts to specific controlled transactions and demonstrating how the reported outcomes reconcile with the transfer pricing analyses on which they are based.

ICTS: Two Views on Transfer Pricing Risk

It is important to emphasize that the ICTS creates new transparency challenges for taxpayers. Traditionally, transfer pricing compliance has focused on whether a taxpayer can support its position based on its own facts and circumstances. That stand-alone perspective remains a big part of the post-ICTS risk: whether the taxpayer can explain and support its transfer pricing policies and outcomes, show that policies have been implemented consistently, reconcile the relevant data to accounts and tax returns, and rely on governance processes that allow management to approve the resulting disclosures.

However, the ICTS adds another, comparative perspective. Because the ICTS will provide HMRC with standardized information across a large population of taxpayers, HMRC will increasingly be able to compare outcomes across industries, transaction types, and business models. This will allow it to identify outliers, observe patterns, and develop views regarding what typical outcomes look like in particular fact patterns. While HMRC has always focused on outliers when assessing tax return risks, and technological developments like iXBRL returns have increasingly systematized this over the years, the comparative approach has remained challenging for assessing transfer pricing risks because of the lack of routinely

collected data on underlying transfer pricing policies.

Through the intelligence picture that will be built from many thousands of ICTS data points, HMRC may also increasingly focus on features that are expected in a particular ICTS return but are not present. For example, if a U.K. group entity operates in an industry that often features royalties, and the ICTS disclosure shows none being received from the rest of the group, this may pique HMRC's interest, even if the overall taxable profits appear reasonable.

The stand-alone and comparative perspectives are not always the same. A transfer pricing policy may be fully supported by the taxpayer's facts and circumstances but still appear unusual when compared with a wider population of taxpayers. Equally, a result that appears typical may not necessarily be arm's length.

The arm's-length principle remains the relevant test. However, the ICTS may influence when HMRC directs its resources and which taxpayers are selected for further scrutiny. For taxpayers, this means that transfer pricing risk can no longer be considered solely by reference to whether a position is technically supportable. Businesses will also need to consider how their outcomes may appear when viewed alongside a broader population, particularly when returns are influenced by business-specific factors, unusual financing arrangements, or highly integrated operating models.

Data Before Narrative

Another consequence of the ICTS is that it changes the order in which HMRC receives information.

Historically, transfer pricing reviews have often begun with narrative. When HMRC requests a local file, it receives a detailed explanation of the business, value chain, functions, assets, risks, and commercial context together with the supporting financial information. The numbers are typically presented alongside the taxpayer's explanation of why the outcome is arm's length.

The ICTS is different; it is primarily a structured data filing. HMRC will receive information on transaction types, transfer pricing methods, margins, financing arrangements, restructurings, policy changes, and adjustments

in a format designed for automated analysis. The initial picture is therefore created by the data itself, rather than the narrative.

There may be entirely legitimate commercial or economic reasons why a taxpayer's results differ from those of its peers. There may be good reasons for a restructuring, a transfer pricing adjustment, an unusual financing arrangement, or a lower-than-expected margin. However, those explanations are unlikely to be apparent from the ICTS filing itself. They may only emerge later through documentation, discussions with HMRC, or a formal inquiry process.

For that reason, the ICTS is not simply a reporting exercise. It is also an exercise in understanding what story the data tells before the supporting narrative is considered. The first question many businesses will need to ask is not whether the underlying position is defensible but whether the ICTS data creates an accurate first impression of the business and its transfer pricing arrangements.

What Should Taxpayers Be Thinking?

The ICTS raises broader questions than simply how to complete a new filing. It requires taxpayers to consider whether their transfer pricing framework, its implementation, and its support are ready for a more transparent and data-driven environment.

Taxpayers need to consider the continuing relevance of existing transfer pricing policies. Many were developed years ago, while business models, value chains, industries, economic environments, and profit drivers have evolved. The ICTS creates a natural opportunity to reassess whether those policies remain aligned with the actual allocation of functions, assets, and risks within the group. This is particularly important if businesses have undergone restructurings, changed operating models, expanded capabilities in certain jurisdictions, or experienced significant shifts in profitability.

Taxpayers also need to examine the coherence of the overall transfer pricing story. ICTS disclosures will sit alongside corporation tax returns, statutory accounts, CbC report information (when relevant), transfer pricing documentation, and publicly available information. Differences between those sources

may be entirely legitimate, but taxpayers should be able to explain them clearly and consistently. The key question is whether the various sources of information available to HMRC collectively tell a coherent story about the business and its transfer pricing arrangements.

Businesses should consider the level of explanation required for outcomes that may attract attention. The ICTS will make financing arrangements, profit-split arrangements, restructurings, transfers of intangibles, policy changes, and transfer pricing adjustments more readily identifiable. Outcomes that are entirely supportable may still require a clearer evidential foundation once viewed alongside a broader population of taxpayers. That does not mean taxpayers should seek to converge toward a perceived industry norm — transfer pricing remains fundamentally fact-dependent — but the ICTS will make differences easier to identify, and taxpayers should be prepared to explain why their facts and circumstances justify those outcomes.

Businesses also need to keep operational readiness in mind. For many groups, the most immediate challenge may not be technical but practical. The ICTS will require transaction data to be identified, extracted, categorized, and reconciled across multiple systems, often at a level of granularity not previously required for routine compliance. Financing arrangements, PEs, high volumes of intercompany transactions, and complex operating models may all present difficulties. For some groups, the challenge will be less about locating the information and more about determining how it should be classified, aggregated, and reported consistently across entities and reporting periods. As a result, data governance, systems capability, and reporting processes are likely to become as important as the transfer pricing analysis itself.

In short, preparing for the ICTS is not simply a question of completing a new form. It is a question of whether policies, outcomes, documentation, governance, and underlying data combine to present a coherent and defensible picture of the group's transfer pricing position.

Conclusion

The ICTS marks a significant development in U.K. transfer pricing administration. The regime will provide HMRC with structured, standardized information on transfer pricing arrangements across a large population of taxpayers and create new opportunities for risk assessment, comparison, and data-driven inquiry selection.

For many foreign-owned groups, the significance of the ICTS may not be immediately apparent. Some may have a relatively limited number of U.K. transactions within scope and assume that compliance will therefore be straightforward. Yet the proposed disclosures demonstrate that the complexity of the regime will, to a large extent, be driven by the level of

detail, reconciliation, and governance required to support the reported data. Financing arrangements, valuation-driven transactions, and the interaction between transfer pricing analyses and local statutory results illustrate how the ICTS may bring new practical challenges, even for groups with relatively simple U.K. transfer pricing profiles.

The first ICTS filing may still seem some way off, but the relevant data will begin to be generated from January 1, 2027. Taxpayers that use the period before implementation to test policies, data, governance, and documentation will be better placed for the coming, more data-led era of U.K. transfer pricing administration. ■